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REMARKS
ON
THE PRESENT STATE
OF
CURRENCY, CREDIT, COMMERCE,
AND
NATIONAL INDUSTRY:
IN REPLY TO AN
ADDRESS OF THE TAMMANY SOCIETY
OF
NEW-YORK.

BY OLIVER WOLCOTT,
GOVERNOR OF THE STATE OF CONNECTICUT.

NEW-YORK:
PUBLISHED BY C. WILEY AND CO. WALL-STREET.
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THE STATE OF NEW YORK

IN SENATE

JANUARY 18, 1891

REPORT OF THE COMMISSIONERS OF THE LAND OFFICE

IN RESPONSE TO A RESOLUTION PASSED BY THE SENATE

APRIL 18, 1890

OF

THE SENATE

BY ORDER OF THE SENATE

ALBANY: J. B. LEECH, STATE PRINTER, 1891.

ALBANY

THE STATE OF NEW YORK

IN SENATE

1891

TO THE
SOCIETY OF TAMMANY, OR COLUMBIAN ORDER,
IN
THE CITY OF NEW-YORK.

Fellow Citizens,

I HAVE perused, with great satisfaction, the Address of your Society, which was transmitted to me by Mr. Crolius on the 29th of last November, and I am sensible that you had a right to expect an acknowledgment at an earlier period.

As some apology for the delay, I take the liberty to mention, that since my retirement from New-York, in 1815, I have wholly withdrawn from active business, except what concerned the management of a farm; and as my correspondence has been very limited, I have been willing to wait for that development of the state of our public affairs, which the meeting of Congress would produce, before I expressed any opinion on the interesting subjects of the Address to which my attention has been invited.

It is too evident, that during the last five years a great change has occurred in all the relations of property, throughout our country; but it is observable, that at no period have the seasons been more propitious, the crops more abundant, or the people more tranquil and united, than at this time, when the suspension of business is so universal as to menace a subversion of the public industry.

The present embarrassment extends to men who have been prudent in the management of their affairs, and embraces alike the industrious farmer, mechanic, manufacturer, and merchant; the borrower and lender; in short, every description of men, except the mere hoarders of money.

The disorder is not local, but universal throughout our country. If greater distress is experienced in the Western States, than among the frugal inhabitants of New England, it is not because a greater abundance of money is circulating in these states, but owing to a more dense population and varied industry, by which the people are enabled more conveniently to supply their mutual wants, by a barter and exchange of commodities.

Nor is the evil confined to the United States, but co-extensive, in different degrees, with the civilized world. If the condition of the different countries of Europe could now be accurately compared, it would

probably appear that those regions which suffered most from the oppressions and extortions of war, (without experiencing its devastations,) and where the governments are at present administered with tolerable equity, have hitherto derived the greatest advantages from the peace; while on the other hand, it is certain, that the victorious states are the most turbulent, uneasy, and distressed. The sudden and extravagant persecution of the Jews, in several of the Germanic cities, has probably no better reason than a suspicion that they possess and retain an undue proportion of the circulating medium. This, if true, is certainly a very venial error, when the state of commerce and the unjust restrictions of most governments, in respect to that people, are impartially considered.

An effect so universal as the general stagnation of commerce and industry, must proceed from a cause of extensive and powerful operation. In my opinion, as it respects ourselves, it ought to be ascribed to the perhaps unavoidable connection which has long subsisted between our system of commerce and revenue, and that of Great Britain. By this observation, it is far from my intention to advance a railing accusation against the government or people of that country : this would be wholly foreign to the purpose of this letter ; but as the evil of which we now complain has been long ac-

cumulating, it is necessary that its origin should be distinctly traced.

The peace which ensued the revolutionary war, in 1783, left the country rich in glory, but greatly exhausted by its exertions. Two years afterwards we read of nothing from North to South, but complaints of hard times, debts and taxes, the want of a circulating medium, efforts to establish new settlements, insurrections against government and paper money, essays attributing the sufferings of the people to the illiberal system of British commerce and revenue, the imbecility of the confederation, the insufficiency of many of the remedies proposed and adopted, united with eloquent exhortations, recommending frugality, the establishment of domestic manufactures, forbearance in the collection of debts, combinations against the cupidity of British agents and factors, and, above all things, the establishment of a National Government.

It is indisputably certain, that it is owing to the distresses and alarming dangers of this period, that the formation of the Federal Government must be ascribed. Its avowed and well-understood objects were, among others, to restore and perpetuate public credit, and to establish manufactures and commerce, on sure foundations.

Public credit, as being the basis of every social institution, received the first attention of the new government. Commerce and manufactures were also encouraged, and both were gradually improving. The first efforts of domestic industry were, however, feeble, as cotton was not then a staple production of this country, and as numerous flocks of sheep had not yet been formed.

While the political systems of the United States were thus acquiring solidity, the elements of a great explosion were preparing in Europe; and, to a view of the present condition of British and American finance, it is important to recollect, that a treaty was negotiated with France, in the year 1786, which provided for the mutual exchange of the productions and manufactures of the two countries, according to a fixed tariff of duties. The effect of this treaty was greatly to stimulate and increase the industry of England, and to depress that of France. Its influence was, indeed, so great, that though it was one of the most powerful causes of the French revolution, it enabled Mr. Pitt, in the same year, to propose and execute a plan for extinguishing the national debt of Great Britain. The effect of this system, was so to advance the British credit, that in 1792, it had progressively arisen to a higher point of exaltation than it had ever attained, except during a short time prior to the war of 1755,

when the interest of money was low, and the national debt comparatively inconsiderable.

Although the war against France, which commenced in the year 1793, arrested the farther reduction of the debt, the system of finance continued, and the sinking fund was converted into an engine for supporting the market prices of funded stock, instead of diminishing the debt, which the government was able readily to effect, in consequence of the high state of public credit, the disturbed condition of adjacent countries, the increasing manufactures of the nation, an active commerce, a powerful marine, and unexampled taxation.

The year 1797 was distinguished by a great event, of which the consequences are still felt by Europe and America, and of which the most important results are, perhaps, yet to be developed. In that year, in consequence of excessive issues of paper, the bank of England was compelled to suspend its payment, in specie.

This measure produced no explosion of British credit, as was by many expected. The circulation of the paper was supported by combinations of the opulent bankers and merchants, and by the spirit of the nation; and the premier, with a profound knowledge of the principles of finance, dexterously applied these circumstances to augment the resources and power of the government.

Although the bank notes were no longer exchangeable for specie, the private bankers and merchants were considered as enjoying a sound credit, while they could command notes of the bank of England. These notes, of course, became the local money of the nation. Whenever appearances of a tendency to depreciation were observed, which was instantly indicated by the course of exchange with foreign countries, the excess of paper was withdrawn from circulation, and vested in funded stock. The prices of stock were preserved from sudden and great vibrations, by a steady application of the sinking fund to purchases of stock in the market. By the combined influence of this system, the paper money of England, aided by resources derived from the oppression of neutral commerce, became, during the war, the standard of value for the commercial world, and the government was thereby enabled to command and mortgage the whole of the property of the people ; to purchase the co-operation of foreign powers ; to accumulate a debt, and to exert a force never before wielded by a single nation.

Soon after the French revolution commenced, the United States engaged in an active and lucrative commerce. This diverted the attention of the country almost wholly from manufactures. A surprising activity was, however, imparted to agriculture ; new settlements expanded in every direction, resting principally,

if not solely, upon operations of foreign commerce for the sale of their produce, and for the importation of clothing and other articles of manufacturing industry.

During most of this period, British finance rested on the basis of paper credit. Though our commerce produced a greater supply of metallic money than it had done at any former period, yet this supply was deemed unequal to the demands of a growing commerce, extending settlements, and the improvements which were forming in every part of the country. This state of things led to the establishment of new banks, and was favoured by public opinion, from their tendency to increase the price of exports, and divide more equally, as was supposed, the profits of agriculture and commerce. The changes were gradual, and appeared to be safe, as the rates of foreign exchange were not essentially affected. It was sufficiently considered, that the standard of value had been varied, and that the exchange with foreign countries was regulated by a comparison of our currency with the paper credit of England, and not by that of the permanent standard of the world, and had been gradually decreasing in value.

The embargo of 1807 gave the first shock to this system. It is in the recollection of most men, how powerfully this measure affected all the relations of price and value throughout the civilized world.

The embargo, though injurious to some interests, was, in my opinion, advantageous to the country. It arrested commerce, which had generally become a losing concern; it disengaged our merchants from a too intimate connection with British finance, and compelled them to settle their accounts; it secured a great capital from the rapacity of foreign nations; it disclosed the weak parts of our public policy; above all, it was the cause of a great number of manufacturing establishments, which, though now inactive, can be easily revived with immense benefit to the country. It is unfortunate, that a vigorous preparation for war was not adopted before that event became inevitable. The justification, perhaps sufficient, of the government is, that public opinion was not sufficiently matured for the adoption of these measures.

During the embargo, a considerable commerce, though principally illicit, continued to be prosecuted. This, though greatly advantageous to Great Britain, was not highly injurious to us; the exports served to sustain some demand for the produce of the country, and to weaken the force of the public discontents. After the war commenced, the illicit trade became exceedingly pernicious. The imports were principally of British manufactures, for which payment was made wholly in money. It was to arrest the progress of this trade, and not for the want of specie, that the banks of

New-York and Philadelphia suspended payments in money. If this measure had been adopted at an earlier period, a great capital would have been preserved to the country, which was worse than lost by checking the progress of domestic manufactures, and diminishing the ability of the banks to support public credit. After the banks suspended payments in specie, the public expenditures rendered the current money too abundant. A great number of new banks were also established by men who possessed neither capital nor experience, the credit of which rested solely on the breath of public opinion.

When the war terminated, the navigation of the commercial world was principally divided between Great Britain and the United States. To supply the demands which its long continuance had occasioned, an active, though ephemeral commerce commenced. Its efforts to restore the equilibrium between supply and demand, price and value, which had been long disturbed by war, or suspended by force, have swept a great capital of the metallic money from Europe and America, to Asia, from which it will not soon, if ever, return. The scarcity of money has been farther increased by the wars in Spanish America, which have prevented the customary supplies of gold and silver from the mines.

The states of Europe which have been most provident, have protected themselves from excessive importations, by restrictions upon commerce and high duties ; the manufactures of Germany and the United States have been, in a great measure, suspended by those of Great Britain ; every where external commerce has been arrested, and the balloon of unsupported paper credit is descending to the earth.

This summary review of historical facts has appeared to me necessary, before we contemplate our situation, and discern the remedies of which it is susceptible ; while it evinces that our embarrassments are not without precedent even in this country, it demonstrates how much the comfort, tranquillity, and peace of nations, are effected by systems of commerce and finance.

It may be observed, that the price of stocks is now high, and that of most articles of produce low ;—this indicates a stagnation of commerce, with confidence in public engagements. That though the circulation of money and of commodities is at present greatly diminished, bank notes are still the current money of the country ;—this evinces the extent of credit. That exchanges are nearly at par with Europe ;—this shows that our currency is about equal to that of England. That though many banks have failed, few of those which ever possessed any considerable sums of metallic money in proportion to their issues of paper, and

which have also been honestly managed, have yet forfeited their credit.

With these facts in view, I proceed to state, that, in my opinion, money, commerce, and credit, are governed by the following laws, except as they are varied by the power, or policy of governments:—

Money is the universal agent for regulating commerce, and at all times, and in all places, it is equal to the difference of the prices of the commodities, or articles of commerce exchanged. Where the prices of the articles so exchanged are equal, the agency of money during that time is dormant. Where the difference is great in proportion to the sum of money which can be commanded, the price of the articles exchanged is low, and the price of money proportionably high. The contrary relation takes place where money is more abundant than the articles sought in exchange.

The prices of money and of commodities are, therefore, always correlative; and, like the flux and reflux of the ocean, constantly tending to an equilibrium, but seldom at rest.

Gold and silver are, with all civilized and commercial nations, the conventional signs of money. The properties which recommend these metals for this purpose are, that they are imperishable, divisible, without waste, uniform, and scarce, to which may be added, their intrinsic value in manufactures.

It is the constant effort of all commerce to supply the wants of mankind on the cheapest terms; to equalize the prices of money and commodities, and to reduce the balances thereon, to the least sums possible, payable in money.

A par of commerce exists where the articles exchanged are equal in price.

A par of exchange signifies equal masses of gold and silver in different places.

Credit is the only substitute for money. It exists only in the reliance which is reposed in punctuality. Happily for mankind, the full advantages of this last refinement of commerce and finance can only be enjoyed by free and just governments, and by individuals who unite wisdom with integrity.

The inferences are, that a commerce mutually advantageous in different commodities may exist between two places having no money, or possessing it in very unequal proportions, with or without a resort to credit.

That between two places, possessing only similar commodities, there will be no commerce, unless the prices are different, which will terminate when the prices become equalized by such commerce.

The demand for exchange indicates the credit which has been obtained; and its rate, the reciprocal demand for money and commodities.

The rate of exchange, though generally, is not always regulated by deviations from the par of commerce. Public or private debts, taxes, extortions of government, new discoveries and inventions—in short, any cause which renders money more profitable or safe in one country than in another, will attract it, independent of, and even contrary to, the influence of commerce. In countries which produce gold and silver, these metals perform the function of money most imperfectly, owing to the unequal product of different years, and to the fluctuations of commerce.

But as gold and silver are at all times costly materials, of which the value is uncertain, the ingenuity of men, in modern times, has been employed in deriving substitutes, without varying the standard.

Hitherto Great Britain and the United States have afforded the most successful examples of the use of credit. It however yet remains to be seen, whether the use can be guarded against great abuses; and if so, what are the limitations required by justice and the public security.

Credit, as a substitute for money, has been employed in the form of bills of exchange, bank notes, and bills of credit, issued on the faith of governments and corporations.

Of these modes, that of bills of exchange is, by far, the least exceptionable.

The price or rate is determined by the relative value of money at the place where the bill is alienated, and that where it is made payable. This price is constantly tending to an equilibrium or par, by the operations of commerce, and other causes, and is further regulated by the necessary expense and risk of transporting money to the place, from which an equilibrium can be established, at the least expense. Nothing more is, therefore, necessary, to render bills of exchange equal in all, and superior in many respects, to money, but to provide such penalties, in all cases where they are not punctually honoured, as will fully indemnify for disappointments.

Bank notes, according to the original intention and proper use of these establishments, were merely tokens or evidences of equal sums of gold and silver left in deposit in the banks as places of security, from whence they could be claimed on demand. While they were confined to the central points of commerce and exchange, they were highly useful, by increasing the activity and security of negotiations, and by diminishing the risk, labour, and expense, attending receipts and payments of considerable sums in metallic money. It was soon discovered by the bankers, that the sums constantly remaining in their coffers, and consisting of sums reserved by their customers for personal expenses and small payments, amounted, in the aggregate, to a

considerable capital, which they might safely add to the active stock of the community, without impairing the credit or security of their establishments, or affecting the course of exchange as regulated by commerce. Even within these limits, banks, if not positively advantageous, were not injurious to the public. They have, however, both in England and in this country, proceeded much farther. By issuing small notes, they have engrossed nearly the whole of the circulating specie, for which they have substituted bank notes, which have of course become the local money of both countries; the value of which money is regulated by the general laws which govern the rate of exchange.

The inconvenience resulting from this state of things is, that whenever gold and silver are demanded by an unfavourable state of exchange, it can only be obtained from the banks, which are then compelled to recall their circulating notes, thus creating a scarcity of money sufficient to turn the exchange in their favour, and thereby avert the demand. When this change cannot be effected as fast as the notes are returned for payment, the banks forfeit their credit, and subject the public to loss; even when the credit of the banks is preserved, the oscillations between the plenty and scarcity of money, created by their operations, are more sudden, and perhaps in some degree more extensive, than would have happened if the course of exchange

had been regulated, without the intermediate agency of banks.

But it ought not to be denied, that the banks, notwithstanding the mismanagement of many, and the frauds of some of these institutions, have been the means of preserving to the country a great specie capital, which would otherwise have been lost by the operations of commerce. This capital, with prudent management hereafter, is sufficient to reinstate our affairs. The stockholders are innocent sufferers by the mistakes which have been committed, and the public are bound in justice to respect their interests. By far the most prudent and efficacious correction of the errors of banks would be to impose gradual restraints on the issue of small notes, commencing with notes of one dollar, and increasing the restriction until it arrived at the limit required by public policy and the real interest of these institutions.

A third mode of employing credit, as a substitute for money, is by issuing bills of credit on the faith of government or corporations. Upon this point, it must be sufficient to remark, that its use presupposes a deficiency of funds derived from revenue, or from loans on specific pledges of property; and as the extent of the use is itself controlled by the principles which regulate the value of money and the rate of exchange, it must exhaust some part of these resources, which are in their

own nature limited. Bills of credit are, therefore, at best, but a temporary remedy, adapted only to periods of public danger and difficulty.

It is presumed that it has been sufficiently proved, that metallic money and its substitutes, are correlative with each other and with commerce, and that the joint and several agency of each are constantly exerted, either to increase or limit their reciprocal powers, and create an equilibrium or par. The activity of these powers is excited by the various wants of men. If cases can be imagined where these wants are fully gratified, or where their indulgence is restrained by force, commerce, credit, and money, must immediately cease.

These observations lead to a brief examination of the present relations of commerce in this country, especially with Great Britain, as being the point to which our attention ought to be constantly directed.

Without entering into minute details, it is sufficient to remark, that the estimated value of all our exports is about equal to those of our imports from Great Britain alone; of course, the general results of all our commerce with the world center in that country.

Of the articles which support the direct trade, a part only of those derived from the forest and from agriculture, are received; those from the sea and from manufactures are wholly excluded from British markets by law. Of all our exports, cotton is by far the most valuable

article of commerce. The quantity is most abundant, the value the greatest ; at the same time it is the least perishable of all agricultural productions, and it likewise affords the most regular support to our navigation. Tobacco is a considerable article, not very liable to perish, but its fluctuating prices render it an unsafe production, both of agriculture and commerce. Of wheat the market is both limited and unstable. It is never received into Great Britain except during years of scarcity, and during such years wheat is commonly scarce in the northern states, where much more would be consumed if the prices were less fluctuating. Although it remains a considerable article of commerce, yet for the reasons which have been mentioned, it is becoming less and less an article of culture for domestic use as our settlements consolidate. On the subject of provisions generally, it may be remarked, that the paramount law of self preservation dictates to nations the wisdom of rendering themselves independent of foreign supplies, as much as possible.

It is sufficient for the present purpose to show, that our imports from Great Britain exceed our exports to that country. In whatever degree they fall short, the deficiency must be supplied by our exports to other countries, and that, as between them and us, it must create an impoverishing commerce, which, if not somehow counteracted on principles which it has been at-

tempted to explain, will exhaust the money and credit of those countries, and then terminate. It is doubtless owing to this cause, and not to unfriendly motives, that our commerce finds so many obstacles.

The relations of commerce between Great Britain and the world, and especially with this country, have, in my opinion, not been sufficiently considered. The power derived from the application of machinery, mechanical arts, and chymical discoveries, unquestionably renders Great Britain, for many purposes, the most efficient combination of men which ever existed. All this power is derived from the skill and labour of but comparatively a small proportion of its population. The paupers, and unproductive inhabitants of every class, add nothing to, but greatly diminish its influence, and yet, with all this counteraction, it remains the first state in Europe.

It is difficult to speak with truth, in terms which will not be deemed extravagant exaggerations, of the effects which certain modern discoveries and improvements have occasioned, and still more so, of the future consequences which they must produce. The discovery by Whitney, of a convenient mode of preparing green seed cotton as an article of commerce, has added more to the value of property in America than any other invention since the age of Columbus. The improvements in the fabrication of cards and carding machines, which are of

American origin ; the British inventions for spinning, knitting, and weaving cotton and wool with the steam engine, in connection with various chymical and other scientific discoveries, have unquestionably enabled that nation to effect more than fifty millions of people could have accomplished without those inventions ; and if the territory had permitted the population to expand, would, before this time, have procured the means of comfortable subsistence for that number. I dare not express the belief I entertain of the increase of numbers, industry, wealth, comfort, and civilization, which these discoveries, when generally diffused among mankind, are destined in future ages to produce.

The advantages of which the discoveries of the last fifty years are susceptible, and which have been constantly developing, are yet principally confined to Great Britain, and as the present condition of that country presents some views which are afflicting to humanity, they have been frequently considered as inevitable results of the manufacturing system.

A critical view of the whole policy of that nation will however evince, that the distresses of the poor are wholly owing to other causes, and that, without manufactures, the government must have sunk under the pressure of its enemies. Of these causes a few only will be mentioned.

All the vigilance, and much of the power of the government, has been steadily exerted to restrain emigrations, and by the poor-laws, the population has been farther confined to local limits. The frequent wars and public debts have introduced excessive taxation; and as a great proportion of the public burdens has been levied by excise duties, upon articles of consumption, the taxes have not been proportioned, either to the property or to the income of individuals. The corn laws, though well calculated to prevent great depressions in the prices of bread, and to enable the landholders to contribute liberally towards the expenses of government, have, in ordinary periods, increased the pressure upon the poor, and served to aggravate their misery and depress their spirit. The public debt has created a great number of annuitants, who add nothing to the public stock, and who introduce luxury, and its concomitants, poverty and vice.

As these causes are sufficient to account for the increase of pauperism in England, it is manifestly unphilosophical to ascribe this evil to employments which encourage industry, order, docility, and the development of intellect; these remarks must, therefore, be sufficient to vindicate the manufacturing system from the reproach of being unfavourable to morality.

The British government appears to be at present employed in establishing measures for regulating their

public currency, and for reducing the public debt; of the tendency of this system, it is important to all countries having commerce with England, and especially to this, to be well informed, and to take heed.

It is not known what quantity of metallic money exists in Great Britain, nor what sum, if any, the government will deem it necessary to acquire, before the bank of England will be permitted to make payments in specie. It is however known, that gold and silver, and foreign exchanges, are now nearly at par; that the public credit is unimpeached; that the government possesses an immense revenue, and resources for supporting a great commerce, derived not only from domestic industry, but from extensive foreign possessions.

If the government wish to accumulate gold and silver, they will so regulate foreign commerce as to create an exchange in their favour:—if the pressure should bear directly upon us, it can only be met by engaging in some lucrative commerce, which will create a fund adequate to the demand:—if this should be found impossible, specie will be drawn from our banks, and an equivalent sum of circulating notes will be recalled from circulation:—if the pressure is made upon some other country with which we have commerce, this will at least diminish the profits of our trade with that country; in any event, the final effect must be to reu-

der it more expensive and difficult to pay debts already contracted in England.

It shall, however, for the purpose of illustration, be supposed, that the British government perceive the necessity of commanding, by their commerce, a certain fund in gold or silver, and are willing to sacrifice for this purpose some part of the interests of their subjects in India, where they possess a paramount authority. In such case, it is certain, that the effect of the regulation would be, to depress the prices of all commodities at Calcutta and Bengal, and to turn the exchange in their favour, from every country. This depression of the prices of commodities, and increase of the value of money, might be equalized by exporting money from New-York, to be there expended in the purchase of Asiatic manufactures, which, when returned to this country, might procure wealth to the adventurers, but with an equivalent loss to the holders of like goods purchased at higher prices, and to the farther depression of the prices of American manufactures, and the general industry of this country.

If the money carried to England, in the case which has been supposed, should be placed in the bank of England, it would there remain wholly inactive, until the bank was authorized to commence payments in specie ; even in such case, it would not be withdrawn, if the foreign and domestic exchanges were in favour

of the bank, and its credit remained unimpeached :— if the whole should be withdrawn, and invested in some commerce or domestic business, lucrative to individuals, without impairing the property of the nation, it would so far increase the resources and power of the government. The effect of reducing the public debt would be precisely the same as an issue of bank notes, or other money, equal to the amount of debt redeemed.—If the same amount should be applied to the extension of profitable manufactures, or to any other branch of national industry, without thereby impairing any other equivalent branch, it would form a new accumulation of wealth, power, and revenue : it might merely increase the price of the stock remaining unpaid ; and if this increase was accompanied by an unfavourable exchange with foreign countries, it would prove, that though the public credit remained unimpaired, and was, for the time, increasing, yet that some branch of commerce or industry was suffering and could receive no farther excitement by an increase of the circulating medium. To equalize the exchange, it would be necessary to retrench the circulating medium, by calling in some part of the loans which had been made by the bank ;—if, notwithstanding this retrenchment, the activity of commerce and industry suffered no diminution, this would prove, that the profits of both would bear some diminution, or that when compared with the commerce and in-

dustry of rival countries, those of Great Britain were relatively increasing.

The question of expediency, how rapidly, and to what extent the public debt can be reduced, must therefore be governed by a view of all the effects which would follow from an equivalent increase of the circulating medium. Of its tendency to create an unfavourable course of exchange with foreign countries, there can be no doubt;—that this would soon be corrected by the operations of commerce, is equally certain.—While our banks retain a considerable fund of metallic money; while the cultivation of cotton, and other productions which nourish British industry, and contribute to their revenue, are increasing, and especially while we are endeavouring to establish rival manufactories, it may well consist with a temporary policy to permit the exchange to remain at par, or even to decline in our favour:—The first effect certainly would be, to stimulate commerce with this country, and to promote the sale of manufactures: the final effect would be, to increase our debts; and when payment became necessary, in consequence of an unfavourable exchange on our part, to exhaust our banks, and render a still farther reduction of the circulation indispensable to the support of their credit.

But whatever may be the expedients of a temporary policy, yet as commerce, credit, and money, when left

to their natural operation, are governed by laws as invariable as those of gravitation, the time must arrive, when the resources of the British government will be limited, either by the policy, or by the poverty of other nations, to those means which can be derived from the industry of their own subjects.

Such is the wonderful combination of that industry, that it is not easy to perceive its limits; its effects, and the mode of application, cannot however be concealed from observation. It ought to be assumed as a principle, that British commerce will remain restricted to such articles as are essentially connected with the support of the manufacturing system, subject only to such occasional variations as are prescribed by necessity. A decline of British commerce may therefore be expected with all countries, which no longer produce the articles demanded; or which, entertaining similar views of public policy, will no longer permit them to be exported; it will of course decline with the neighbouring countries of Europe, and will thrive only in countries of recent establishment, or of immature civilization.

In proportion as British commerce is so regulated as to nourish particular branches of industry, will the public revenue operate directly or indirectly as a tax on such industry, and as a premium, or bounty in favour of the like industry in other countries, not subject to similar burdens.

This effect can be no otherwise counteracted than by superior skill derived from machinery, new inventions, or other like causes, and even this advantage will be diminished by a redundant population.

That England is, in some degree, afflicted with this evil, cannot be doubted; that it is increasing, is probable; the waste of superfluous wealth is generally equal to what is demanded by the necessities of the poor; when the one cannot be corrected, nor the other diminished, and when both, with the demands of government, are equal to the profits of industry and commerce, it is certain that they will have arrived to the acmé, from which powerful and prosperous nations have hitherto commenced their decline.

It will not be safe for any nation to presume that England has already arrived to this point, although several symptoms of approximation must have created inquietude in the government of that country. As the currencies of England and of the United States, essentially consist of credit in the form of bank notes, we are deeply interested in the results of British finance, as they may affect our commerce and the course of exchange with foreign countries. It is certain that our money must rise in value here at the same rate as in England, and unless great care is taken, it will depreciate with every deviation from the true standard.

It has been seen that bank notes are a substitute for

money, only when they can be sustained in circulation by industry and commerce, of which the only true test is their convertibility into silver and gold. It also appears, from British accounts as published, that the notes issued by the bank of England, in 1797, when payments in specie were first suspended, amounted to about eleven millions, and in December, 1817, to more than twenty-nine millions sterling. What amount of notes were issued at different periods by private bankers is not known, but as their credit was sustained only by being convertible into notes of the bank of England, the whole amount in circulation ought to be added to twenty-nine millions, to ascertain the circulating money of Great Britain. As the business of many private bankers has been extensive, and as the trade of banking has at all times been sufficiently profitable to attract a great proportion of the national wealth, it is a moderate estimate to consider the circulating money or credit of Great Britain, as equal, at least, to sixty millions of sterling money.

The actual amount is, however, by no means an essential point of inquiry: whatever may be the sum, as the exchanges at the dates of the last information, and the price of gold and silver bullion were nearly at par, they fully evince that the whole was required for the circulation of British industry and commerce.

During the last two years, there has been a great

suspension of commerce, which must have arisen, in a considerable measure, from operations of British finance. It is well known that the government is endeavouring to increase its metallic money, and to discharge some part of its debt. These objects tend to counteract each other; but the government probably deems it necessary to accomplish both, so far, at least, as to make the bank of England independent of the vibrations of commerce, and to enhance the value and security of the national funds.

The means for effecting these objects are limited only by the power of the government, and the degree of pressure which the people can bear: if, as is probable, the circulation of Great Britain, is at least equal to sixty millions sterling, a less proportional reduction of the currency will accomplish any definite object, than will be necessary to counteract the pressure in countries where the circulation is less abundant; hence arises the danger to this country, where the circulation is not only far less considerable, but is principally dependent on the credit of our banks.

If the estimate before made is tolerably correct, it abundantly confirms the calculation, that British industry, exerted in manufactures, has increased in a triplicate ratio since the year 1797: that the circulating notes of the bank of England have increased in that proportion is certain.

A reduction of the amount of British money, to what it was in 1797, would exhaust the circulation of Europe and America to such a degree, that if no equivalent supplies of gold and silver were contemporaneously produced, the value of money might, for a time, be equal to what it was during the oppressive reign of Henry the Seventh. An event of this kind is not, however, to be expected, because the people of England could not bear the pressure, nor the government enforce the necessary reduction of credit. They may, however, enforce regulations which will be greatly inconvenient to rival countries, and they may judge that such regulations will promote their national interest; that they may even mistake their own interest, is the less improbable, when we consider that the United States is at present their most profitable customer, and that our growth and prosperity are more owing to their wars and restrictions, than to any results of our own policy, uninfluenced by those events.

It may now be proper to inquire into the truth of that principle, which asserts, that national industry and foreign commerce ought to be free from political regulations, and suffered to influence each other as private interest may appear to direct.

The effect of every tax on an article of commerce or consumption is to increase the value, and most commonly the price of the article so taxed, and is, so far

as it diminishes the consumption, or varies the state of the market, a regulation of commerce, and a violation of the principle. If any government should adopt this principle in its full extent, it would be compelled to assess all its taxes upon lands or other immoveable property. This was, in fact, the rule proposed by the French economists ; but as it would be insupportable in any nation, unless adopted as the system of all nations, it has for some time been exploded even as a theory, and it is now unnecessary to examine and prove its fallacy.

The system of political economy, which has been most generally adopted in this country, is that of Dr. Adam Smith, which asserts that the revenue of individuals is derived from *rent, profit, or wages* ; that taxes ought to be levied in proportion to the ability of the people as derived from these sources ; and that industry and commerce ought to be left to pursue their unrestrained course, as being that which will result in the greatest prosperity of society.

It was doubtless the object of this respectable and benevolent writer, to demonstrate the impolicy and injustice of a great part of the systems of European nations, not excepting those of Great Britain. He however expressly admits, *that it will be generally advantageous to lay a burden upon foreign, for the encouragement of domestic industry, whenever such encourage-*

ment is necessary for the defence of the country; upon this principle alone, he vindicates the British act of navigation.

The principle of this exception from the general freedom of commerce and industry, is all for which any American should contend, and all which ought ever to be permitted. That every man ought to be suffered to elect, or renounce his profession, to be exempt from monopolies and from partial and unequal taxes or restraints, is certainly proper. The only exceptions to this general liberty perhaps are, the sale of dangerous drugs and compositions, and of ardent spirits, which should be entrusted only to persons of discretion and responsibility.

Though many of the illustrations of the principles of Dr. Smith proceed much farther, especially in respect to the freedom which ought to be allowed to foreign commerce, yet it should be recollected, that these opinions were expressed prior to the French revolution, and before the effects of modern inventions on the industry of nations had been ascertained, and then, with a due allowance for the effects produced by these causes, a critical examination will evince, that every illustration was intended to be understood as subservient to the great principle of *national security*, in every form, in which that security could be endangered.

Any other construction would, indeed, impute to the learned author the absurd opinion, that with reference to the present condition of Europe and of the world, it is the interest of all nations to submit to the power of Great Britain, and for that nation to remain under the absolute control of a minor part of its population.

Food, clothing, and iron, in the forms in which they are applied to human use, by civilized nations, are to us necessities of life ; we can no better dispense with any one than with both the other. Of the articles which constitute food, we have more than enough ; even at the present time, there is no scarcity in any district of our country. Of our grain, a large proportion is wasted by distillation, with a view to preserve it from perishing, and to render it a more convenient article of commerce. For clothing and iron we are, in a great measure, dependent on foreign countries, and the distribution of what we possess is rendered difficult by the present state of our currency.

To preserve our national union, and to secure our country from the enterprises of foreign nations, it has been necessary to give an artificial expansion to our settlements. Our natural boundaries, embracing the valley of the Mississippi with its tributary rivers, and extending to the lakes and to the ocean, are sufficiently extensive to support one hundred millions of freemen, without any of those collisions, which an exces-

sive population has a tendency to produce. The sales of our new lands have not yet defrayed the expenses of acquisition and defence. Our revenue is wholly derived from duties, on the consumption of articles of foreign growth or manufacture. It has been proved, that this commerce is limited by the vendible productions of our industry, and that this industry is, in a great measure, stagnant, by being directed to objects which do not, and cannot, support foreign commerce. The expenditures of our government, general and local, are now considerable, and must increase. To the national government is committed the public defence by sea and by land, and the support of public credit, on which repose all our strength and all our hopes. We owe a considerable debt, of which the interest is payable to foreign countries. Most of the national expenditures, therefore, tend to drain the interior country, and our oldest settlements, and thereby create a centrifugal movement to all our resources.

That this representation of the state of our affairs is true, will not be denied ; that it is sufficiently appalling to render a national effort, such, as more than once, has been necessary to rescue our country from great and dangerous embarrassments, is, I hope, proved. If it fails to produce a conviction, that it is not safe to permit the passions and private interests of individuals to prescribe remedies for political evils ; especially if, con-

trary to the experience and practice of all nations, and to the undeniable fact, that it was chiefly for the purpose of enabling Congress to regulate money and commerce, and to encourage domestic industry, that the federal government was established, then the inference must be, that the founders of our nation have, at all times, been wholly mistaken, and that union, justice, security, and public welfare, do not in fact depend, as they believe, upon the wisdom and efficacy of social institutions, but, on the contrary, that public disorders will produce their best remedies, by the operation of sanative principles inherent in the nature of man.

Though this doctrine is flattering to the pride of our nature, yet experience has evinced, that it is more frequently the plea of ignorance and imbecility, than a proof of patriotism, or of any real concern for public liberty. It was not thus that our fathers reasoned ; and if I do not greatly mistake, such opinions will afford no passport to popularity with the American people. Among the many proofs, that the tone of the public mind has not relaxed, the address of the Tammany Society of New-York, affords a striking example.

It has been recently demonstrated, that the revolution itself was produced by a spontaneous effort of the American people ; and that the merit of the illustrious actors in that great event consists in the fidelity and perseverance with which they executed the resolutions of the

public will. The revolution delivered us from foreign oppression, but left us without a national government.

It required but a short period for consultation, before the people perceived the difficulties and danger of their situation. A convention was called: the result was deliberately ratified, and in two years a constitution was formed.

When the first congress assembled, in 1789, a great part of the states of New-York and Pennsylvania, and almost the whole of the country north of the Ohio, were covered with their native forests. A few hundred troops were stationed on the north-western frontier; these composed the whole military force. There was no semblance of a navy, and the confederation possessed neither money nor credit.

I pass over the arduous duties which attended the organization of the systems of government, both domestic and foreign, till the year 1797, when the national feelings were strongly excited by aggressions on our commerce. It is within my knowledge that the frigates were first armed with cannon, which were borrowed of the state of New-York, or with guns which had been left by the British army, and buried on the commons of Philadelphia during the revolutionary war; that the public arsenals did not at that time contain the means of armament for the revenue cutters, and that the commerce of Philadelphia remained for some time block-

aded by two or three privateers, one of which could not be prevented from repairing a considerable damage within the capes of the river Delaware.

But notwithstanding this humiliating condition, in less than three years, by energetic and well directed efforts, the United States possessed a respectable navy, which was distinguished by acts of gallantry, the auspicious presages of that glory of which it is now unnecessary to speak.*

The last war gave a perfection, and, I trust, a permanency to the arts necessary to the defence of the country, and laid the foundation for a manufacturing system, which, if fostered by the government for a few years, will insure a permanent revenue, an extended and prosperous commerce, and, while public virtue continues, security to the liberty, tranquillity, and union of the people.

Hitherto our revenue has depended on the success of our commerce. This is necessarily limited by our exports, and these in turn depend, in peace, on the wants

* It is to this period, and to Henry Foxall, that we owe the rudiments of almost all the skill we possess in the fabrication of cannon, and other casts of iron, which now appear in our navy, fortifications, steam-boats, and manufacturing establishments; to Russell Hunt and Brothers, the earliest perfect specimens of large machinery of wrought iron, including anchors for our principal ships; and to Eli Whitney, models of muskets, which have never been surpassed. All this skill has since been protected, encouraged, and diffused by the government, and its present value to the country exceeds the cost of the military and naval efforts of every subsequent period.

and policy of foreign nations ; and in war, on the efficiency of our naval power.

If we rely much longer on this system, the government will evaporate, and the sooner the necessary consultations take place, the more easy will the transition be from a state of insecurity and languor, to that of activity and vigour.

The means of effecting the requisite change have been wisely indicated by the spontaneous voice of the American people, and so far as depends upon their voluntary efforts, they are already in a train of exertion. They consist in the examples of frugality, moderation, mutual support, and justice, which are everywhere prevailing ; in the diffusion of agricultural improvements—in the encouragement afforded to manufactures and general industry ; what is wanting is merely a direction of that industry to the most advantageous pursuits.

Hitherto the economical systems of the government have been principally directed to the accumulation of revenue from foreign commerce ; but they are now evidently recoiling, and must be supported by new measures. Our fast-sailing ships, which traverse the ocean ; our steam-boats, which ascend our magnificent and rapid rivers ; our improved roads and canals of interior communication—all of which were devised for our peculiar benefit—are at present employed principally

to aid our rivals, and to transport commodities into the central regions of this great continent, which check every effort of profitable industry, and blast every germ of patriotic enterprise.

It remains for congress to arrest these evils—to turn back the current—and to direct the activity which is now exhausting the country into sources of permanent convenience and wealth.

I hope it will not be deemed presumptuous if I say, that the people ought to expect, and be ready to support, a system of internal revenue, never to be hereafter abandoned.

It seems to be an admitted fact, that our revenue must be increased; and I think it is evident, that it would be vain to expect the sums which will be required from a decayed commerce. Merely to increase the rate of duties on imposts, so as to encourage evasions, would disappoint the public wishes, and only operate as a tax on honest men for the benefit of smugglers: whenever the fair merchant can pay no more, and articles continue to be introduced, which are hurtful to the country, they should either be prohibited entirely, or be subjected to an extra tax, to be collected of the venders.

I know that the name of an excise is odious in this country, but it is only so in consequence of the objects on which it has been levied, and the manner in which it has been usually collected.

An excise on articles of food, or of necessary use or comfort, may justly be considered odious, and it will be the fault of the people if such taxes are ever levied in this country; but excise duties on articles which interfere with domestic industry, on the luxuries of the rich, and the vices of the improvident, are the most beneficial sumptuary laws which can be devised, and nothing would be so advantageous, at present, as to charge the expenses of government upon such objects.

It may seem paradoxical, but I have no doubt that such taxes would encourage foreign and domestic commerce, and the circulation of money in the interior country; promote stable and regular prices for agricultural productions; confirm a just equality of condition, and exempt our lands from taxation, except in periods of war, beside furnishing resources, constantly increasing with every accumulation of national wealth and civilization.

OLIVER WOLCOTT.

Litchfield, Connecticut, February, 1820

The first of these is the fact that the
 country is not yet fully developed and
 the people are not yet fully educated.
 In this case, the government should
 take steps to improve the situation.
 The second is the fact that the
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